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RUEHKO/AMEMBASSY TOKYO 1637
RUEHVEN/USMISSION USOSCE 1979
RUCPDOG/USDOC WASHDC 0168
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHAK/AMEMBASSY ANKARA 2006
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SUBJECT: DONOR DISAGREEMENT ON TAJIK COTTON SECTOR

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¶1. (SBU) Summary. Fissures within the donor community threaten to derail efforts to resolve Tajikistan's \$400 million cotton debt. The Asian Development Bank favors a donor bailout of the cotton sector, in order to save industry investors and prevent a potentially fatal breakdown of the nascent banking system. The World Bank believes that upwards of 80% of the debt should be written off by investors who knew what they were getting into, and allow farmers and the government to pay off the remainder of the debt following a series of agricultural reforms. The Tajik government is largely beholden to the powerful investors (including some close relatives and associates of President Rahmon) who control the debt, but donors may be able to push the Tajik government into accepting a debt-write off by finding ways to fund future harvests. We should not subsidize wealthy local investors who have done little to improve the situation and done much to keep Tajikistan's farmers in poverty, and who may be inflating their debt holdings to squeeze more out of donors. End Summary.

¶2. (SBU) Director General Juan Miranda of the Asian Development Bank surprised donors at the June 2 Development Forum meeting in Dushanbe by backing out of a plan to create an independent Tajik mechanism to take on the \$400 million cotton debt. He instead proposed to bring in an international accounting firm to handle the debt as an authoritative arbiter. [Comment: Having a respected international company handle the debt makes sense since the Asian Development Bank is interested in putting significant funds into a bailout. End comment.] Asian Development Bank proposed financing a bailout of up to \$100 million, which they would split with the World Bank. World Bank officials in Dushanbe chafed at this idea, preferring to punish powerful Tajik investors, whom they calculate have made \$1.2 billion from Tajik cotton exports over the last 10 years, while Tajikistan's farmers grew more impoverished. The World Bank believes the Tajik banking sector can withstand the fallout of any investor bankruptcies, despite the fact that many of the top

cotton investors are intricately involved in Tajikistan's banks.

13. (SBU) Both donor banks remain committed to agricultural reform, with the World Bank recently agreeing to a \$15 million agricultural development project, following on the Asian Development Bank's \$12 million program. Both projects include funds to help create an independent debt resolution mechanism, but do not provide loan funds to actually pay off the debt. All donors agree that the farmers' debt should be taken out of the hands of investors in order to free farmers from their control.

14. (SBU) Without debt relief for farmers, the roadmap on agricultural reforms which the government signed in March will not succeed. The roadmap commits the government to put through a series of measures over the next three years, most importantly preventing local governments from bullying farmers and allowing them to buy inputs independently, plant the crop of their choice, and sell to whomever they like. Additionally, the government and donors will enhance seed stock, improve market information, build processing capacity, and ease farmers' access to credit. With U.S. technical assistance, the government is working on land code reform that would allow buying, selling and mortgaging of land use rights. These reform measures will put the agricultural sector - and individual farmers -- on the path to profitability.

15. (SBU) Getting farmers access to agricultural credit is vital to the roadmap's success. According to the agricultural policy unit at the Ministry of Agriculture, farmers need \$80 - \$100 million each year to fund the harvest. In order to improve farmer access to credit, the United States is planning to work with local banks to provide credit guarantees for their agricultural loans. The European Bank for Reconstruction and Development is also funding agricultural loan projects. Increased funding for these programs would allow local banks to increase their lending to the sector.

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16. (SBU) Comment: The local consultant for the Asian Development Bank believes that the Tajik government will not go through with essential agricultural reforms if the donors do not bail out the investors. With tens of millions of donor funds conditioned on the government implementing specific reform measures spelled out in the roadmap, the government should understand that failure to introduce reforms will only hurt the Tajik agricultural sector more. What the government will actually do, and how it will balance the clear need for reform with the financial interests of powerful investors from Rahmon's inner circle, remains unclear.

17. (SBU) Over the past year, as donors got closer to agreeing on a debt resolution program and investors began anticipating a big payoff, the size of the cotton debt ballooned from \$300 million to \$400 million, according to National Bank figures. However, after spending over a year studying the debt on a farm-by-farm basis, the World Bank basically gave up trying to determine the actual size of the debt, since farmers themselves hold scanty documentation of debts and only investors have records of what is owed them. The World Bank feels no need to pay off a made-up debt and neither should we. Reforming the agricultural sector and pushing the government to fight off powerful investors and write off the debt is the best solution for Tajikistan's farmers. End Comment.
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